N-06b

Human Resources Department

Date: March 29, 2012

TO: John Szerlag, City Manager

FROM: Peggy Sears, Human Resources Director

SUBJECT: How Pay and Benefits in Troy Compare to Pay and Benefits in Other Communities

In September, 2010, City Council approved the retention of the International City Management Association (ICMA) to conduct an Organizational Restructuring Study. This study incorporated a comparative benefits review consisting of post-retirement, health, pension, current salary, and benefits. The resulting Summary and Recommendations concluded that Troy's salary and benefits compare well to other Michigan jurisdictions, especially in light of recent cost reduction efforts and employee concessions. Efforts to manage costs have been more aggressive than efforts by other Michigan cities, in particular the City's effort to manage and contain pension and post-retirement benefit costs. These comparisons and cost management efforts are discussed in more detail below.

1. *Even before employee concessions, Troy Salaries as of 2010 are Comparable to Other Communities*

   Comparing Troy salaries to local comparable communities shows actual salaries being paid to upper management employees are 7% below average. In a comparison of over 30 classifications in cities with a population between 60,000 – 125,000, it was determined that salaries in Troy were comparable. (ICMA defined "comparable" as being within a range of +/-15% in order to account for statistical variations in sample size, differences in job descriptions, etc.).

   It is significant to note that Non-union employees have had *no pay raise since 2008.* By comparison, some cities have held their salaries static, but many have increased wages from 1 to 3 percent.

2. *Troy leads most communities in reducing benefit costs*

   In a study conducted by the Michigan Municipal League of 300 communities, Troy is part of a short list of communities that have aggressively taken steps to reduce pension costs. Specifically:

- Only 27% require new employees to participate in Defined Contribution (DC) pension rather than the more costly Defined Benefit (DB) pension. Troy began eliminating DB for new hires 14 years ago, and currently 75% of the employees are now in DC.

- Only 13% utilize Retiree Health Savings (RHS) accounts to replace retiree health insurance. Troy began eliminating retiree health insurance for new hires beginning in 2006; currently, 12% of the employees are enrolled in RHS.

- Only 21% have eliminated longevity pay for new hires. Additionally, many cities continue to pay longevity to all employees, and some continue to have uncapped longevity pay based on percent of salary. Troy longevity payments have been capped for more than 20 years, and 19 years ago Troy began eliminating longevity pay for new hires. To date, only 30% of the employees still receive longevity pay.

3. *The ICMA conclusion that Troy employees are not overpaid compared to comparable cities was reached prior to employee concessions. Since then, non-union employees have agreed to significant concessions including:*

    - 5% pay reduction with the use of furlough days
    - Additional 1.9% pay reduction each pay period (employees work 80 hours but get paid for 78)
    - 5% contribution toward the cost of their health insurance in addition to reduced health insurance benefits

4. *All six unions have agreed to at least 10% concessions*

    Employees in every bargaining unit have partnered with administration to reduce payroll costs. These discussions included re-opening contracts that had not yet expired.

5. *Troy has been and continues to pursue savings in health insurance.*

    These efforts have included the elimination of the traditional health insurance plan, instituting higher deductibles and co-pays, increasing employee premium-sharing, incentives for employees who don't need health insurance to opt out of employer-provided coverage, and aggressively negotiating with providers to try to minimize rate increases. In fiscal year 2010-2011, premiums paid by the City were reduced by nearly $320,000 from fiscal year 2009-2010.

In conclusion, the City of Troy's efforts to manage and contain pay and benefits have been leading edge in comparison to other cities, and we have positioned ourselves to minimize exposure to higher costs in the future. That said, we need to be cognizant of the potential to no longer be competitive in the market. This was expressed in the ICMA report, and has already come to light in attempting to recruit for specialized positions as well as retain qualified employees. We have had little or no success in attracting candidates for positions requiring significant skill or education, and we have lost valuable, experienced employees to positions paying more than Troy.